

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

The Evergreen State College July 1, 2016 through June 30, 2017

2017-001 The College did not have adequate internal controls in place to ensure it accurately reported its financial statements and notes.

Background

College management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. These controls should ensure the College follows all generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) statements.

Description of Condition

Our audit identified the following deficiencies in internal controls over financial reporting that, when taken together, represent a material weakness:

- The College did not have a process to ensure sufficient research was performed to correctly implement new GASB standards. As a result, the College did not properly implement GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which affects accounting and financial reporting for pensions.
- The College did not dedicate the necessary time and resources to ensure all financial statement calculations were reported correctly on the face of the financial statements. Tuition revenues should have been reported net of discounts and allowances.

Cause of Condition

The College accounting department experienced turnover during the financial statements' preparation. As a result, the College did not have the staff or resources to perform a detailed, independent review of the financial statements to ensure proper implementation of GASB 73 and to ensure the statements agreed to supporting documents for tuition discounts and allowances.

Effect of Condition

Our audit identified the following errors in the financial statements and schedules provided for audit. The College did not:

- Include the cumulative effect in change of accounting principle due to GASB 73 on the Statement of Revenues, Expenses, and Change in Net Position. The misstatement amount was \$2,456,768.
- Record the correct amount for deferred inflows of resources related to pensions on the Statement of Net Position. The misstatement amount was \$1,446,000.
- Record the proper amount for scholarship discounts and allowances as prescribed by the National Association of College and University Business Officers (NACUBO). The College used the amount of refunds applied to student aid as the scholarship expenses instead of the scholarship allowance less the tuition waivers already booked. This resulted in revenues being understated and expenses being overstated, both by \$3,048,486.

Other, less significant errors were also identified in the financial statements provided for audit. All material misstatements noted above were corrected.

Recommendations

We recommend College management develop and maintain adequate internal controls over financial statement reporting that ensure accurate and complete financial statements and footnotes. Specifically, the College should:

- Develop a process to ensure sufficient research is performed to correctly and promptly implement new GASB standards
- Develop a process including a detailed, independent review of the financial statements to ensure that the statements and the scholarship discounts and allowance calculation are reported properly and agree to supporting documentation

College's Response

The College agrees with the finding and the cause of the finding cited by the SAO, which identifies a lack of staff resources due to staff turnover in key positions during the financial statement preparation. The College understands the importance of strong internal controls and adequate review of the financial statements.

To address the cause and ensure adequate review in the future, the College is in the process of hiring an Assistant Accounting Manager (AAM). The AAM will be responsible for researching and correctly implementing new GASB standards and assisting in the preparation and review of year-end financial statements.

Auditor's Remarks

We appreciate the College's commitment to resolving the issues noted. We will review the status during the next audit.

Applicable Laws and Regulations

RCW 43.88.160 Fiscal management – Powers and duties of officers and agencies, states in part:

(4) In addition, the director of financial management, as agent of the governor, shall:

(a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its *Codification of Statements on Auditing Standards*, Section 265 as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

.A11 Indicators of material weaknesses in internal control include:

- Identification of fraud, whether or not material, on the part of senior management. For the purpose of this indicator, the term “senior management” includes the principal executive and financial officers as well as any other members of senior management who play a significant role in the entity's financial reporting process;
- Restatement of previously issued financial statements to reflect the correction of a material misstatement due to fraud or error;
- Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected and corrected by the entity's internal control; and
- Ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

Section 20.15.30.a *Who is responsible for internal control?*

The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

Section 20.15.40.c *Control Activities*

Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.

Section: 20.15.50.a - Annual assurance

A risk assessment and internal control review process provides management with reasonable assurance that controls are operating as expected. In addition, the process should be used to determine if internal control modifications are needed by considering events that have occurred, processes or procedures that have changed, new projects or programs that are being planned or implemented, and other changes within the agency that may have additional risks. If the review uncovers internal control weaknesses or if prior

weaknesses still exist, they should be documented and addressed.

Periodically, an agency should conduct a comprehensive review of the internal control structure to determine if it is adequately addressing agency risks. This can be done agency-wide at one time or by sections of the agency over a period of time.

Agencies must maintain adequate written documentation of activities conducted in connection with risk assessments, review of internal control activities and follow-up actions. This documentation includes any checklists and methods used to complete these activities. Refer to Subsection 20.25.50 for required documentation. For sample checklists and procedures, refer to the OFM Administrative and Accounting Resources website at: <http://www.ofm.wa.gov/resources/default.asp>.

Agencies have the flexibility to assign appropriate staff to complete the risk assessments and review of internal control activities required by this policy. The internal control officer is the person appointed by the agency head who is assigned responsibility for coordinating and scheduling the agency-wide effort of evaluating and reporting on reviews and improving control activities. The internal control officer also provides assurance to the agency head that the agency has performed the required risk assessments and the necessary evaluative processes. This communication may be ongoing and informal, but at least once per year, this assurance must be made in writing to the agency head. The internal control officer is responsible for ensuring that the required documentation is maintained and available for review by agency management, the State Auditor's Office (SAO), and OFM.